

AKRON CARE CENTER, INC.

INDEPENDENT AUDITORS' REPORT
BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
AND SCHEDULE OF FINDINGS

JUNE 30, 2011 AND 2010

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AKRON CARE CENTER, INC.

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dan Rexwinkel	President	Dec 2011
Brad Britton	Vice President	Dec 2011
Iola Frerichs	Secretary	Dec 2013
Margaret Correia	Member	Dec 2013
Bob Watson	Member	Dec 2011
Gail Olson	Administrator	Indefinite
Chad Ericson	Representative, City of Akron	Appointed by City



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Akron Care Center, Inc.
Akron, Iowa

We have audited the accompanying statement of net assets of Akron Care Center, Inc., a component unit of the City of Akron, Iowa, as of June 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended, which collectively comprise the Care Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Akron Care Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Akron Care Center, Inc. as of June 30, 2011 and the respective changes in financial position, and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2011, on our consideration of Akron Care Center Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Akron Care Center, Inc. has not presented management's discussion and analysis but has presented budgetary comparison information on page 14 to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the budgetary comparison as required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Williams & Company P.C.
Certified Public Accountants

Onawa, Iowa
October 17, 2011

AKRON CARE CENTER, INC.
STATEMENTS OF NET ASSETS

JUNE 30, 2011 AND 2010

	<u>ASSETS</u>	
	2011	2010
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 97,746	\$ 184,819
Board Designated Cash	39,501	35,596
Investments - Certificate of Deposit	5,277	-
Investments - Stock	-	11,462
Accounts Receivable (Less Allowance for Doubtful Accounts \$42,000 and \$6,139 for 2011 and 2010)	223,333	129,215
Prepaid Expenses	22,599	11,533
Total Current Assets	388,456	372,625
<u>NON-CURRENT ASSETS</u>		
Land - Note 4	23,004	23,004
Construction in Progress - Note 4	269,433	-
Other Capital Assets, Net of Depreciation - Note 4	796,054	802,824
Total Noncurrent Assets	1,088,491	825,828
Total Assets	1,476,947	1,198,453
	<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>		
Accounts Payable	129,189	73,293
Accrued Salaries and Payroll Taxes Payable	30,358	57,900
Accrued Compensated Absences Payable - Current	5,795	7,287
Accrued Interest Payable	12,723	8,425
City of Akron Note - Current - Note 5	-	22,000
Current Maturities of Long-Term Debt - Note 6	20,306	19,483
Total Current Liabilities	198,371	188,388
<u>NON-CURRENT LIABILITIES</u>		
Accrued Compensated Absences Payable - Long-Term	17,385	21,859
City of Akron Note - Long-Term - Note 5	140,000	118,000
Long-Term Debt - Note 6	305,944	326,217
Total Non-Current Liabilities	463,329	466,076
Total Liabilities	661,700	654,464
	<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	622,241	340,128
Unrestricted	193,006	203,861
Total Net Assets	\$ 815,247	\$ 543,989

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>OPERATING REVENUES</u>		
Patient and Resident Revenue	\$ 2,287,553	\$ 2,079,885
Meals	4,781	5,898
Miscellaneous Income	27,794	14,809
	<hr/>	<hr/>
Total Operating Revenues	2,320,128	2,100,592
<u>OPERATING EXPENSES</u>		
Administrative Expenses	353,458	259,375
Dietary Services	273,998	258,773
General Services	205,590	221,873
Patient Care Services	1,237,208	1,107,826
Depreciation	23,929	21,048
Apartments - Village South	23,407	25,504
Apartments - Village North	55,642	125,075
	<hr/>	<hr/>
Total Operating Expenses	2,173,232	2,019,474
	<hr/>	<hr/>
<u>OPERATING INCOME</u>	146,896	81,118
<u>NON-OPERATING REVENUES</u>		
Donations and Memorials	119,407	8,225
Interest Income	559	382
Gain on Sale of Investments - Stock	4,396	-
Unrealized Gain on Investments - Stock	-	2,249
	<hr/>	<hr/>
Total Non-Operating Revenues	124,362	10,856
	<hr/>	<hr/>
Changes in Net Assets	271,258	91,974
	<hr/>	<hr/>
Net Assets at Beginning of Year	543,989	410,460
	<hr/>	<hr/>
Net Assets at End of Year	815,247	502,434
	<hr/>	<hr/>
Prior Period Adjustment	-	41,555
	<hr/>	<hr/>
Net Assets at End of Year as Restated	<u>\$ 815,247</u>	<u>\$ 543,989</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patient and Resident Services	\$ 2,193,435	\$ 2,053,095
Cash Paid to Suppliers for Goods and Services	(768,800)	(580,092)
Cash Paid to Employees for Services	(1,323,674)	(1,340,625)
Donations Received	119,407	8,225
Other Operating Revenues	<u>32,575</u>	<u>20,707</u>
Net Cash Provided By Operating Activities	<u>252,943</u>	<u>161,310</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	(315,491)	(25,225)
Principal Paid on Bank Note Payable	(19,450)	(20,633)
Interest Paid on Bank Note Payable	(12,310)	(19,017)
Principal Paid on City of Akron Note	<u>-</u>	<u>(20,000)</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(347,251)</u>	<u>(84,875)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of Investments - Certificate of Deposit	(5,167)	-
Sale of Investments - Stock	15,748	-
Interest Received	<u>559</u>	<u>382</u>
Net Cash Provided By Investing Activities	<u>11,140</u>	<u>382</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(83,168)	76,817
Cash and Cash Equivalents at Beginning of Year	<u>220,415</u>	<u>143,598</u>
Cash and Cash Equivalents at End of Year	<u>\$ 137,247</u>	<u>\$ 220,415</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</u>		
Cash and Cash Equivalents	\$ 97,746	\$ 184,819
Board Designated Cash	<u>39,501</u>	<u>35,596</u>
Total Cash and Cash Equivalents	<u>\$ 137,247</u>	<u>\$ 220,415</u>

(Continued)

Supplemental Disclosure

Non-Cash Activities

Unrealized Gain for the year ended June 30, 2010 was \$2,249.

AKRON CARE CENTER, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2011 AND 2010

(Continued)

	<u>2011</u>	<u>2010</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating Income	146,896	81,118
Adjustments to Reconcile Operating Income to		
Net Cash Provided (Used) By Operating Activities:		
Donations	119,407	8,225
Interest Expense	16,608	23,567
Bad Debt Expense	35,861	21,856
Depreciation	52,828	49,438
Changes in Assets and Liabilities:		
(Increase) in Accounts Receivable	(129,979)	(48,646)
(Increase) in Prepaid Expenses	(11,066)	(1,616)
Increase in Accounts Payable	55,896	39,264
(Decrease) in Accrued Salaries and Payroll Taxes Payable	(27,542)	(9,596)
(Decrease) in Accrued Compensated Absences Payable	(5,966)	(2,300)
Total Adjustments	<u>106,047</u>	<u>80,192</u>
Net Cash Provided By Operating Activities	<u>\$ 252,943</u>	<u>\$ 161,310</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

Akron Care Center, Inc. is licensed as a nursing facility with a 48 bed capacity. Substantially all of the Care Center's patients and residents are local residents and a majority of them are entitled to benefits under the Medicaid/Title XIX program. Akron Care Center, Inc. also operates two senior living apartment complexes separate from the licensed facility. For the years ended June 30, 2011 and 2010, Title XVIII and Title XIX revenue, as a percentage of total revenue, was 58% and 51%, respectively.

Akron Care Center, Inc.'s financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Akron Care Center, Inc. has included all funds, organizations, agencies, boards, commissions and authorities. The Care Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Care Center are such that exclusion would cause the Care Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Akron Care Center, Inc. to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Akron Care Center, Inc. Akron Care Center, Inc. has no component units which meet the Governmental Accounting Standards Board criteria. Akron Care Center, Inc. is a component unit of the City of Akron, Iowa.

B. Basis of Presentation

The accounts are organized as a single special purpose government and accounted for as a business-type activity. Business-type activities are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Akron Care Center, Inc. applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

D. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash and Cash Equivalents – Akron Care Center, Inc. considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all individual patent balances.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by Akron Care Center, Inc. as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and Improvements	\$ 5,000
Equipment and Vehicles	1,000

Capital assets of Akron Care Center, Inc. are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	10 - 50
Equipment and Vehicles	3 - 25

Interest is capitalized on assets, other than infrastructure assets, acquired with tax-exempt debt. The amount of interest capitalized is the net interest expense incurred (interest expense less interest income) from the date of the borrowing until completion of the project. As of June 30, 2011 interest capitalized was \$2,120. There were no qualifying assets acquired during the year ended June 30, 2010.

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.)

F. Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

G. Statement of Revenues, Expenses and Changes in Net Assets

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

Note 2 - CASH AND INVESTMENTS

The Care Center's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

A Health Care Facility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidence of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; common stock; perfected repurchased agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

At June 30, 2010 the Care Center had the following investment which was sold during fiscal year 2011:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
Principal Financial Group, Inc. Common Stock	\$ 11,462	None

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Care Center does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk – The Care Center has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss on public funds. However, the common stock is subject to fluctuation in market activity.

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 3 – ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

The Care Center has entered into a reimbursement agreement for nursing services rendered to Medicaid patients. The Medicaid program has adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

Note 4 – CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2011 and 2010 was as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Fiscal year ended June 30, 2011:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Construction in progress	-	269,433	-	269,433
Total capital assets not being depreciated	<u>23,004</u>	<u>269,433</u>	<u>-</u>	<u>292,437</u>
Capital assets being depreciated:				
Building and improvements	1,806,423	31,775	-	1,838,198
Equipment and furnishings	276,799	14,283	-	291,082
Total capital assets being depreciated	<u>2,083,222</u>	<u>46,058</u>	<u>-</u>	<u>2,129,280</u>
Less accumulated depreciation for:				
Building and improvements	1,053,975	42,226	-	1,096,201
Equipment and furnishings	226,423	10,602	-	237,025
Total accumulated depreciation	<u>1,280,398</u>	<u>52,828</u>	<u>-</u>	<u>1,333,226</u>
Total capital assets being depreciated, net	<u>802,824</u>	<u>(6,770)</u>	<u>-</u>	<u>796,054</u>
Total capital assets, net	<u>\$ 825,828</u>	<u>\$ 262,663</u>	<u>\$ -</u>	<u>\$ 1,088,491</u>
Fiscal year ended June 30, 2010:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ -	\$ -	\$ 23,004
Capital assets being depreciated:				
Building and improvements	1,806,423	-	-	1,806,423
Equipment and furnishings	251,499	25,300	-	276,799
Total capital assets being depreciated	<u>2,057,922</u>	<u>25,300</u>	<u>-</u>	<u>2,083,222</u>
Less accumulated depreciation for:				
Building and improvements	1,013,145	40,830	-	1,053,975
Equipment and furnishings	217,740	8,683	-	226,423
Total accumulated depreciation	<u>1,230,885</u>	<u>49,513</u>	<u>-</u>	<u>1,280,398</u>
Total capital assets being depreciated, net	<u>827,037</u>	<u>(24,213)</u>	<u>-</u>	<u>802,824</u>
Total capital assets, net	<u>\$ 850,041</u>	<u>\$ (24,213)</u>	<u>\$ -</u>	<u>\$ 825,828</u>

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 4 – CAPITAL ASSETS (Cont.)

Reconciliation of Investment in Capital Assets

	Business-Type Activities	
	<u>2011</u>	<u>2010</u>
Land	\$ 23,004	\$ 23,004
Construction in Progress	269,433	-
Other Capital Assets, Net of Depreciation	796,054	802,824
Note Payable	<u>(466,250)</u>	<u>(485,700)</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 622,241</u>	<u>\$ 340,128</u>

Note 5 – CITY OF AKRON NOTE

At July 1, 2008, Akron Care Center, Inc. owed \$60,000 to the City of Akron, this was due on demand. In February 2009, this note was converted to a long-term note with a maturity date of August 2013, interest rate of 0.00% and no set payment schedule determined. If no payments are made during the term of the note, the Care Center has the ability to renegotiate the terms of the note. A payment of \$20,000, was made during 2010. The facility has no plans to make payments in the next fiscal year.

Also during February 2009, the City of Akron advanced to Akron Care Center, Inc. an additional \$100,000 to cover operating expenses. The Care Center made no payments to the City of Akron during the year ended June 30, 2010 resulting in an outstanding balance of \$100,000. The terms are as follows: the note is due in September 2013, interest rate of 4.50% and no set payment schedule determined. The facility has no plans to make payments in the next fiscal year.

The following are the long-term debt maturities over the future fiscal years ending June 30:

Year Ending June 30,	Principal Note #1	Principal Note #2	Interest	Total
2012			\$ 4,500	\$ 4,500
2013	\$ 40,000	\$ 100,000	4,500	\$ 144,500
Total	<u>\$ 40,000</u>	<u>\$ 100,000</u>	<u>\$ 9,000</u>	<u>\$ 149,000</u>

	<u>2011</u>	<u>2010</u>
Total City of Akron Note	\$ 140,000	\$ 140,000
Less: Current Maturities	-	<u>22,000</u>
Balance due, Total City of Akron Note – Long Term	<u>\$ 140,000</u>	<u>\$ 118,000</u>

Note 6 - LONG-TERM DEBT

Long-term debt consists of a note payable to Peoples Bank with an original principal of \$625,000. The note financed the construction of the Village North Apartment Complex, an 8-unit senior living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122 including interest at 3.30%. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The note was refinanced on November 24, 2008 for \$375,000 which is payable in 180 equal monthly installments of \$2,823 including interest at 4.25%.

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 6 - LONG-TERM DEBT (Cont.)

A summary of long-term debt at June 30, 2011 and 2010 follows:

	<u>2011</u>	<u>2010</u>
Note Payable – Peoples Bank	\$ 326,250	\$ 345,700
Less current portion	<u>20,306</u>	<u>19,450</u>
	<u>\$ 305,944</u>	<u>\$ 326,250</u>

The following are the long-term debt maturities over the future fiscal years ending June 30:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	4.25%	\$ 20,306	\$ 13,573	\$ 33,879
2013	4.25%	21,229	12,650	33,879
2014	4.25%	22,128	11,751	33,879
2015	4.25%	23,087	10,792	33,879
2016	4.25%	24,072	9,807	33,879
2017 – 2021	4.25%	137,041	32,355	169,396
2022 – 2024	4.25%	78,387	4,482	82,869
Total		<u>\$ 326,250</u>	<u>\$ 95,410</u>	<u>\$ 421,660</u>

Note 7 – OPERATING LEASES

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$2,270 and \$2,270 for the years ended June 30, 2011 and 2010, respectively.

Note 8 – RELATED PARTY TRANSACTIONS

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2011 and 2010 were \$33,500 and \$33,500, respectively. In addition, the Care Center received cash donations of \$119,407 and \$7,638 for the years ended June 30, 2011 and 2010, respectively.

Note 9 – PENSION AND RETIREMENT BENEFITS

The Care Center contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which as established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the Care Center is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The Care Center's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$76,508, \$61,978 and \$68,995, respectively, equal to their required contributions for each year.

Note 10 – RISK MANAGEMENT

The Care Center is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Care Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

AKRON CARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

Note 10 – RISK MANAGEMENT (Cont.)

The Care Center's workers' compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2011, there were no claims in excess of the minimum contributions to the claim fund.

Note 11 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to ending of the year net assets on the Statement of Revenues, Expenses and Changes in Net Assets to adjust accrued leave during fiscal year 2010. The increase to ending of the year net assets for June 30, 2010 was as follows:

Net Assets at End of Year	\$ 502,434
Prior Period Adjustment	<u>41,555</u>
Net Assets at End of Year as Restated	<u>\$ 543,989</u>

Note 12 – COMMITMENTS

The facility entered into an agreement with Ahnemann Associates, Inc. in December 2010. This is for the fundraising campaign for the newly proposed nursing home facility. The campaign will be conducted over a ten month period for a total of \$64,500 payable in monthly installments of \$6,450 beginning January 1, 2011. As of June 30, 2011 the remaining commitment is \$25,800.

Note 13 – SUBSEQUENT EVENTS

On September 22, 2011 the City of Akron was approved for a \$4,000,000 loan from United States Department of Agriculture (USDA) Rural Development. The City will then loan Akron Care Center, Inc. \$4,000,000 to finance the construction of a new nursing home facility.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON CARE CENTER, INC.

BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL (CASH BASIS)

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Amended	
<u>OPERATING REVENUES</u>						
Charges for Fees, Services and Loans	\$ 2,287,127	\$ 33,569	\$ 2,320,696	\$ 1,849,338	\$ 1,849,338	\$ 471,358
<u>OPERATING EXPENSES</u>						
Business Type Expenditures and Principal Payments	2,131,949	271,915	2,403,864	1,960,365	1,960,365	(443,499)
<u>NONOPERATING (REVENUES) EXPENSES</u>	<u>124,362</u>	<u>(124,362)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>NET CHANGE IN NET ASSETS</u>	<u>279,540</u>	<u>(113,984)</u>	<u>(83,168)</u>	<u>(111,027)</u>	<u>(111,027)</u>	<u>27,859</u>
<u>BALANCE BEGINNING OF YEAR</u>	<u>543,989</u>	<u>(323,574)</u>	<u>220,415</u>	<u>220,415</u>	<u>220,415</u>	<u>-</u>
<u>BALANCE END OF YEAR</u>	<u>\$ 823,529</u>	<u>\$ (437,558)</u>	<u>\$ 137,247</u>	<u>\$ 109,388</u>	<u>\$ 109,388</u>	<u>\$ 27,859</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION-
BUDGETARY REPORTING

JUNE 30, 2011

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Care Center on the accrual basis of accounting. The Akron Care Center submits the adopted budget to the City of Akron where it is incorporated within the City of Akron's certified budget. The City of Akron is responsible for following the requirements of public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City of Akron's Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2011, the Care Center's expenditures exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual expenditures for the entire City of Akron to the total business-type activities budget.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Akron Care Center, Inc.

We have audited the financial statements of Akron Care Center, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated October 17, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Akron Care Center Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Akron Care Center Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompany schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items II-A-11, II-B-11, II-C-11 to be significant deficiencies and material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Akron Care Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Akron Care Center, Inc.'s responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Care Center's responses, we did not audit Akron Care Center, Inc.'s responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information of and use of the officials, employees and constituents of Akron Care Center, Inc. and other parties to whom Akron Care Center, Inc. may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Akron Care Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Willis & Company P.C.
Certified Public Accountants

Onawa, Iowa
October 17, 2011

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS

JUNE 30, 2011

Part I: Summary of the Independent Auditors' Results

- A. Unqualified opinions were issued on the financial statements.
- B. Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements and are considered material weaknesses.
- C. The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Material Weaknesses

- II-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – An individual who does not have access to the accounting records should prepare the initial cash receipts listing at the time of opening the mail. This listing should be compared to the cash receipts journal and the bank deposits on a periodic basis by the Administrator or a different accountant.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager review receipts, posting, and payroll on a test basis.

Conclusion – Response accepted.

- II-B-11 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not adjusted in the Care Center's financial statements. Adjustments were subsequently made by the Care Center to properly include these amounts in the financial statements.

Recommendation – The Care Center should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Care Center's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

- II-C-11 Payment of Paid Time Off – During the audit, we identified 100% of Paid Time Off (PTO) was being paid out to employees who have resigned or how have provided advance written notice. According to the policy in the current Employee Handbook, PTO is to be paid out at 75%.

Recommendation – The Care Center should correctly pay out PTO at 75%.

Response – We will have the Board review our employee handbook policies and determine what percentage to pay PTO to employees who leave. We will then follow that policy.

Conclusion – Response accepted.

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS (Contd.)

JUNE 30, 2011

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (A) Questionable Expenses – No questionable expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (B) Travel Expense – No disbursements of money for travel expenses of spouses of Care Center officials or employees were noted.
- (C) Board Minutes – No transactions were found that we believe should have been approved in the Care Center's minutes but were not.
- (D) Deposits and Investments – In accordance with Chapter 12C.2 of the Code of Iowa, Akron Care Center, Inc. is required to have a written resolution approving each depository and the maximum amount which may be kept on deposit. During our audit, we were unable to be provided with such resolution by Akron Care Center, Inc.

Recommendation – A resolution in an amount sufficient to cover the anticipated balance at the approved depository should be adopted by the Board.

Response – Akron Care Center, Inc. shall designate by resolution, which shall be entered in the official minutes of the board, the names and locations of the financial institutions selected as the official agency depository or depositories.

Conclusion – Response accepted.

- (E) Business Transactions – No business transactions were noted between the Care Center and Care Center officials.
- (F) Budget – Expenditures during the year ended June 30, 2011 exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual expenditures for the entire City of Akron to the total business-type activities budget.